

The Beaverton Arts Commission has asked ECONorthwest to conduct an update to the 2004 Performing Arts Center Feasibility Study. The current vision for the facility is a state of the art theater with stage and fixed seating for 600, flexible space for classrooms and meetings, and gallery space in the lobby or in a separate room. A preferred site for the Performing Arts Center has not yet been selected, but it is intended that the facility would complement surrounding uses, including outdoor features, such as a small amphitheater, sculpture garden, and water feature.

## 1.1 SCOPE OF WORK

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Our task was not to conduct a new feasibility study, but to review and update the assumptions and findings from the 2004 study. Therefore, we did not conduct a new survey of performing arts groups for potential market demand. Nor did we recalculate construction costs. Our analysis included each of the following elements:

- Demographic analysis of Beaverton and surrounding areas to estimate personal spending on live entertainment.
- Preliminary site selection, reviewing five alternative sites for their potential to accommodate the proposed facility.
- Updated construction costs based on inflation.
- Input on operating assumptions, solicited from local experts with experience operating comparable facilities, as well as case study examples of similar facilities around the country.
- Discussion of financing strategies, including potential tools, and key considerations.

## 1.2 KEY FINDINGS

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Based on our analysis, we identified the following key findings:

- Residents in and around Beaverton should provide sufficient market demand for a performing arts center.
- Updated for inflation, total construction costs (excluding land acquisition and parking) would be \$664 and \$681 per sq. ft. in 2010, for total construction costs of about \$25.5 million.

- The operating projections in the 2004 study may have been too optimistic, and revised assumptions show an increased operating deficit.
- Broad-based support is key. Proponents of the facility will want to better understand potential support (from the private, public, and non-profit sectors), before proceeding with more detailed (and expensive) next steps.
- All of the five sites reviewed in this study have potential, particularly the Beaverton Christian Church site.

## 1.3 RECOMMENDATIONS

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The following recommendations are based on our findings:

- Pace yourselves. The community has been considering this facility for years, and if the fundraising is successful, it will likely still be years before the new facility opens its doors.
- Refine your projections for facility use, involving local community arts groups throughout the process.
- Refine your development program, prioritizing the types of spaces and amenities that are most important to the community, and how each will affect the facility's costs and revenues (capital and operating).
- Determine the feasibility of the Beaverton Christian Church, answering: What is the facility lacking? And what will it cost to bring it up to snuff?
- Bring in a veteran fundraiser to help craft your strategy. Without adequate funding, the facility will not come to fruition.
- Engage your community leaders: arts patrons, elected officials, corporate execs, education officials, arts organizations, foundation leaders, civic leaders, etc.
- Explore the potential of developing the performing arts facility as part of a mixed-use project that could include complementary uses

The remainder of this report describes our analysis and key findings and recommendations in greater detail.

## 2.1 DEMOGRAPHIC ANALYSIS

The first step in our analysis was a calculation of consumer spending on live theater admissions by residents of Beaverton and surrounding area. We wanted to know if there was sufficient demand in the area to support the performing arts groups that would use the facility.

The basis for the analysis is national data, which was applied to the local demographic circumstances of the Beaverton area. This was done because data specific to the city or even the state are unavailable. However, it is widely recognized that attendance is highly correlated to household income throughout the country, as shown in Table 1 with data from the National Endowment of the Arts.

**Table 1. Percent of U.S. households by income that attended at least one performance in 2008**

Household Income Range	Jazz concert	Classical music	Musicals (plays)	Other plays
Less than \$10,000	4.3%	4.0%	6.6%	4.2%
\$10,000 to \$19,999	3.6%	3.9%	6.3%	3.7%
\$20,000 to \$29,999	4.1%	4.4%	7.7%	4.1%
\$30,000 to \$39,999	7.1%	6.8%	11.0%	6.7%
\$40,000 to \$49,999	8.9%	8.7%	15.4%	7.4%
\$50,000 to \$74,999	7.6%	9.5%	15.4%	8.6%
\$75,000 to \$99,999	8.7%	11.7%	21.8%	13.4%
\$100,000 to \$149,999	13.4%	14.8%	32.0%	14.1%
\$150,000 and over	15.4%	22.8%	40.1%	24.2%

Source: U.S. National Endowment for the Arts, "2008 Survey of Public Participation in the Arts."

The percent of households that had attended at least one performance in 2008 generally rises with household income.<sup>1</sup> Households earning over \$100,000 go to theaters the most. About 21 percent of Beaverton households currently fall into this income category.

<sup>1</sup> Note that households that earn less than \$10,000 participate more often than those earning \$10,000 to \$19,999. This incongruity is the result of how income is defined. Money withdrawn from IRA and similar retirement accounts is not counted as household income, yet affords retirees with the money to spend.

In addition, frequency, household size, and average ticket prices paid are also positively correlated with household income. These factors are accounted for in the data on Table 2. The table lists annual household spending by income. In 2008, the average American household spent \$127.81 on live theater admissions. Spending varied considerably by income, with those earning less than \$15,000 spending \$30.36, and households making at least \$150,000 spending \$530.67.

**Table 2. Annual spending on live theater admissions by household income, national averages, 2008**

<b>Household Income Range</b>	<b>Spending per Household</b>	<b>Persons per Household</b>	<b>Spending per Capita</b>
Less than \$15,000	\$30.36	1.67	\$18.18
\$15,000 to \$24,999	38.47	1.95	19.76
\$25,000 to \$34,999	47.06	2.19	21.48
\$35,000 to \$49,999	67.50	2.43	27.78
\$50,000 to \$74,999	106.66	2.73	39.02
\$75,000 to \$99,999	165.10	2.97	55.53
\$100,000 to \$124,999	238.00	3.13	76.09
\$125,000 to \$149,999	285.94	3.30	86.65
\$150,000 and over	530.67	3.20	165.83

Sources: Calculated by ECONorthwest using personal consumption expenditures from the U.S. Bureau of Economic Analysis and the U.S. Bureau of Labor Statistics consumer expenditure survey.

It is important to note that the term “consumer spending on live theater” means payments of admissions to events held in general audience theaters designed specifically for entertainment including plays, operas, dance, comic performances, musicals, concerts, and other live entertainment.

Admissions are not direct revenues for theaters, but rather for the performance groups that rent the theaters. Additionally, theater attendees also spend money at venues on food, drinks, programs, parking, and merchandise. These are not counted in “consumer spending on live theater.” Thus, our analysis is a useful metric for the proposed facility, but is not a facility revenue forecast.

The 2008 spending per household from Table 2 was adjusted for inflation and applied to the 2010 estimate of households by income group as reported by Claritas, Inc. The result is an estimate of resident spending in 2010 on live theater admissions. For the area, we estimate total admissions spending of about \$70.8 million. We define the area as all zip codes in Washington and Yamhill counties, as well as zip codes in Multnomah County that are at least partially in Portland.

Note that this is the amount of spending on live theater by residents of the area. This is not the same as spending on live theater in the area. In other words, visitors from outside of the area may spend money on live theater in the area, and local residents certainly travel outside of the area and make expenditures in other parts of the State and Country. This import/export spending behavior was not measured.

Translating total admissions into attendance or ticket sales is problematic, because there is no simple average admission price for live theaters in general. But the estimate of total spending indicates significant demand in the area for live theater that the proposed Beaverton Performing Arts Center could tap into. This supports what many proponents of the arts in Beaverton already know: As urban areas (like Portland) develop, higher income households often tend to concentrate in surrounding areas (like Beaverton). This is in part because household income is positively correlated with household size. Those with children need affordable living space and desire good schools, which are often outside of city centers. Demand for live theater follows this demographic shift. Meanwhile parking costs and travel difficulties act as taxes on attending venues in the central city. Thus, a good performing arts center in Beaverton would have three important and related inherent advantages — proximity to theatergoing households, convenience, and lower costs to attend.

## **2.2 PRELIMINARY SITE ANALYSIS**

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ECONorthwest looked at five sites in the City of Beaverton as potential locations for the proposed facility. These sites were selected by the Beaverton Arts Commission through discussions with City officials and other stakeholders:

- Beaverton Christian Church
- Griffith Business Park
- Library Parking Lot
- Transit Center (Lombard)
- The Round (Millikan)

For each of the sites, we considered a wide-range of evaluation criteria. It is tempting to think of site selection as a quantitative exercise. Scoring each site on each criterion, and whichever site has the highest score is the preferred site. We believe, however, that it is a more qualitative process that

depends heavily on the perspective of the evaluators. We considered each of the following factors qualitatively:

- **Neighborhood/Community:** How would the project fit the community? What are the surrounding uses, and are they compatible with a performing arts center? Would other business in the area benefit from the development? Could the project be a catalyst for redevelopment of adjacent sites?
- **Accessibility:** Is the site within walking distance to major centers and corridors? Does the area feel safe, and inviting? Is the site easy to find for visitors not familiar with the area? Is it accessible by mass transit, particularly during evening hours and weekends? Is there adequate parking?
- **Site Characteristics:** How big is the site? Can it accommodate the desired development, including on-site parking? What existing uses are on site? Would the proposed facility conform to the zoning code and comprehensive plan? Are there any other development constraints (e.g., wetlands, steep slopes, soil contamination)?
- **Ownership:** Who owns the site currently, and what are their plans? Is it a public or private owner? Are they amenable to selling the property? Is the ownership consolidated in a single entity or are there multiple owners?
- **Site preparation:** What existing structures are on site? Would any uses need to be replaced or relocated? How much disruption to neighbors would construction cause?

A full matrix showing how each of the sites compares on each of the evaluation criteria is included as Attachment A to this report. Table 3 briefly summarizes our findings.

**Table 3. Preliminary site evaluation**

	Beaverton Christian Church	Griffith Business Park	Library Parking Lot	Transit Center	The Round
Neighborhood/Community	-	0	+	+	+
Accessibility	0	0	-	+	+
Site Characteristics	+	+	-	0	-
Ownership	0	-	+	0	0
Site Preparation	+	0	0	+	+

Source: ECONorthwest

Each of the sites has potential to accommodate the proposed facility. Below, we describe some of our key findings for each of the sites.

### **2.2.1 BEAVERTON CHRISTIAN CHURCH**

The Beaverton Christian Church is located at 13600 SW Allen Blvd., between SW Menlo Dr. and SW Wilson Ave. The Church site is unique among the five locations we considered. It is the only site with an existing facility that has the potential to be remodeled to suit the needs of the proposed Performing Arts Center. It is possible the building could be remodeled as a lower-cost alternative to new construction. If these savings were significant, it could be beneficial to the financial feasibility of the project.

However, redeveloping old buildings is not always as cost effective as one would hope. The building could have issues related to asbestos or seismic standards. We understand the acoustics are great, but other improvements would be needed including a new soundboard, dimmers, and construction of a fly tower. A more detailed analysis of the site may turn up other necessary improvements.

The site's location poses other challenges. The surrounding area is primarily residential, which means the performing arts center would have a limited ability to spur catalytic redevelopment, and there would be little synergy between the facility and surrounding property. Additionally, the neighbors may not be supportive of a facility that brings additional traffic through the area on evenings and weekends. The site is relatively easy to find and access by car, but is not located near a MAX line.

We do not wish to sound overly pessimistic about the potential of this site. Indeed, it has many advantages that make it particularly attractive. The main theater has ample seating, and good acoustics. The building has several additional rooms that could be used for classroom space, and there is significant surface parking on site. Additionally, the church is currently for sale. We encourage the City to further investigate this site with due diligence.

### **2.2.2 GRIFFITH BUSINESS PARK**

The Griffith Business Park includes multiple parcels on either side of SW Griffith Drive, between SW Beaverton-Hillsdale Highway and SW 5<sup>th</sup> St. The site offers some intriguing possibilities. The site is large, but ownership is splintered into numerous parcels, which could make site assembly a challenge. The majority of businesses located on-site are professional firms that operate during normal business hours. This raises



the possibility of negotiating shared parking agreements, where patrons of the Performing Arts Center would take advantage of largely unused surface parking lots during evening hours and weekends when performances are typically scheduled.

The site is not served by MAX, and bus service is currently limited except during mornings and evenings. The site is fairly easy to access by car, off of Hwy 217 and Beaverton-Hillsdale Hwy. The site is close to the Beaverton-Hillsdale corridor and Beaverton Town Center, which means the Performing Arts Center could help spur economic activity and possible added development in these areas. Theater attendees would also be within walking distance of other retailers and restaurants in these areas.

### **2.2.3 LIBRARY PARKING LOT**

The library parking lot is the block located South of SW 3<sup>rd</sup> St., and West of SW Hall Blvd. The library parking lot is a mixed blessing. On one hand, it offers the potential to create a cultural center in Beaverton. The area around the library is already considered to be the cultural heart of the City. Adding the Performing Arts Center would strengthen this reputation, and perhaps pave the way for future cultural improvements in the area. Additionally, the property is owned by the City, which should prove helpful for site acquisition, if this site was selected.

On the other hand, it is the smallest of the sites under consideration, at just over 2 acres. As such, this site presents a number of challenges. Parking would be one of the greatest constraints of this site. With such limited space, structured parking would likely be necessary, adding significant capital costs. If structured parking were provided on site, it would make sense to explore sharing the garage (and the construction costs) with other nearby properties.

The site is currently home to the farmers market, which presents a second challenge. Given the support and popularity of the market, a new home would need to be found for them, which could add additional project costs.

The library parking lot site also poses challenges for accessibility. It is not located on major arterials, and is served by one-way streets that can be confusing for visitors unfamiliar with the area. The site is not served by MAX, but does have very good access by bus, providing frequent service to Tualatin, Lake Oswego, and the Beaverton Transit Center.

While City ownership of the site is a benefit, and it could provide a good fit for the neighborhood; we believe the numerous challenges and



constraints of the site make it the least desirable of the potential sites under consideration.

## **2.2.4 TRANSIT CENTER**

The Transit Center site is a collection of vacant parcels on SW Lombard Ave., between SW Millikan Way and SW Center Street. The Transit Center (as the name implies) is the best possible location for accessibility by mass transit. Providing frequent MAX light-rail and bus access. The site is also a short walk from a number of Beaverton activity center, including Old Town, Broadway, and the Town Square mall, and not far from Cedar Hills Crossing. The transportation infrastructure, and proximity to nearby retail and dining establishments make this an exciting potential location.

The site is 6.2 acres, which could allow for on-site surface parking (or structured parking), depending on the final building design. The site is currently a grass field, and there are no existing uses that would need to be replaced or relocated.

The Biggi family owns the bulk of the site, as well as a significant amount of other property in the area. The family has owned much of this property for generations, and may not be interested in selling the land to the public sector for the Performing Arts Center, particularly if they think they could receive a higher return on investment with private development in the future.

## **2.2.5 THE ROUND**

The site near the Round is a triangular block North of SW Millikan Way, between SW Hall Blvd. and SW Watson Ave. The site shares many of the same advantages of the Transit Center, first and foremost, great accessibility by mass transit, including MAX light-rail and bus. The site is also close to activity areas along Broadway, Farmington, and Canyon, as well as Cedar Hills Crossing, providing retail and dining opportunities for Performing Arts Center attendees, and potential economic impact for the community.

The site is smaller than the Transit Center site, at only 2.8 acres. Providing parking on site could be a challenge, and taking advantage of nearby structured parking should be explored. Previous development at the Round encountered problems with soil quality that added significant development costs. If this site receives further consideration, we recommend diligent analysis of the soil to confirm if those same challenges apply.

The majority of the site is publicly-owned, which could assist in site acquisition. Washington County is the largest property owners, with over two acres. The Beaverton Urban Renewal Agency, Lee Peter, and Strandberg/Francis LLC own parcels that comprise the remainder of the site (about an acre). Depending on which of these parcels need to be acquired, site acquisition could require additional negotiations with these multiple property owners.

## 2.3 CONSTRUCTION COSTS

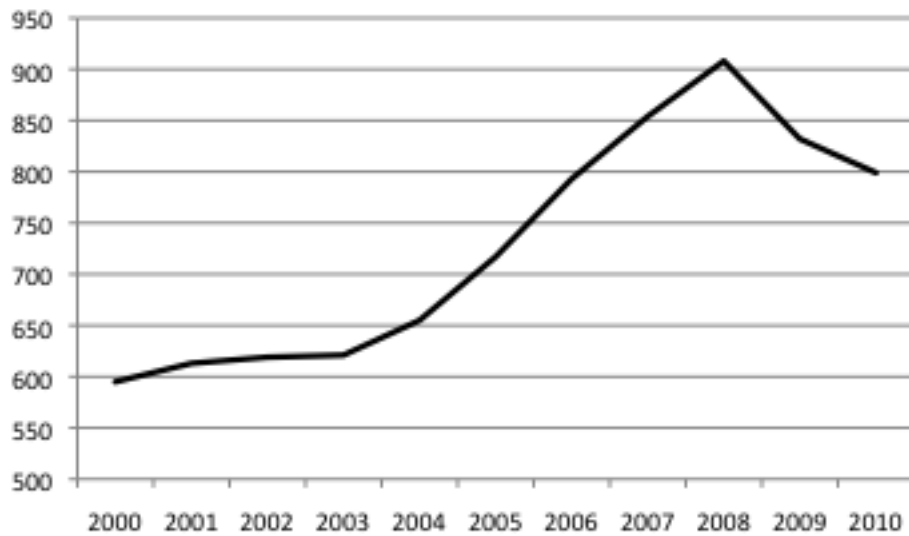
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As part of the 2004 Feasibility Study, LMN Architects provided a cost estimate for the proposed Performing Arts Center. Since there had been no design work for the facility, LMN Architects prepared their cost estimate based upon their experience and database of similar projects. Ultimately, they arrived at a magnitude of cost estimate based upon anticipated square foot costs for building programs of this type and size.

LMN Architects found that this type of construction project would have general construction costs of approximately \$375 to \$385 per square foot. They assumed costs would increase by 45% when furniture-fixtures and equipment, contingencies, and soft costs are factored in, resulting in an estimated cost of \$544 to \$558 per sq. ft. They estimated the facility would be 38,073 sq ft., resulting in total project costs of \$21 million. Keep in mind these costs do not include the cost of land acquisition or parking, which will vary depending on the selected site.

Table 4 presents the Turner Building Cost Index for the past decade. This particular cost index is determined on a nationwide basis, considering labor rates, productivity, material prices and the competitive condition of the marketplace. Building costs rose rapidly from 2003 to 2008, when the recession had a cooling effect on the market. Adjusting LMN Architects 2004 cost estimates for inflation results in an increase of 22%, bringing the cost per square foot to \$664 to \$681 per sq. ft., and total project costs of approximately \$25.5 million.

**Table 4. Turner Building Cost Index, 2000 – 2010**



Source: Turner Construction, 2010

Actual costs will vary depending on the final development program, including the building size and quality. They will also be affected by locational issues such as soil conditions. Design work will be necessary to refine these cost estimates. Similar facilities around the country have a wide-range of actual project costs. A few examples are described below:

- **Seton Hill University Performing Arts Center.** The 73,000 sq. ft. facility was completed in 2009. The facility includes a 470-seat concert hall, a 200-seat theater, classroom space, rehearsal areas, costume and scene shops, computer labs, and offices for faculty and administration. Total project costs were \$21 million, or approximately \$288 per sq. ft. University facilities often lack expensive detail work and finishes that are found in centers designed to serve the larger public.
- **Leshner Center for the Arts (Walnut Creek, CA).** The Leshner Center is composed of several venues, including four theaters ranging in size from 133 to 785 seats, a 3,500 sq. ft. gallery, a rehearsal center, and multiple spaces for meetings and receptions. The facility was completed in 1990 for a total cost of \$21 million, or \$38 million when adjusted for inflation using the Turner Building Cost Index.
- **Tempe Center (Tempe, AZ).** The Tempe Center is a 90,000 sq. ft. facility completed in 2007. The facility includes a 600-seat proscenium theater, 200-seat studio theater, and a 3,500 sq. ft. gallery. Total project costs were \$47 million, or \$522 per sq. ft.

The LMN Architects construction cost estimate, updated for inflation provides a good order-of-magnitude estimate. This estimate is useful for analyzing preliminary capital financial feasibility, but needs to be adjusted by assuming costs for site acquisition and the provision of parking (surface and/or structured). The next financial step is to assess viable funding sources. How much can be funded through private donations, and non-profits such as foundations and trusts? How much would the public-sector need to chip in, and what potential public sources could provide these funds? Is there capacity to borrow some of the needed funds by floating revenue bonds or other financing instruments? Once there's agreement on the ability to match preliminary construction costs with funding resources, then more site-specific design work will be critical in refining construction cost estimates.

## **2.4 OPERATING ASSUMPTIONS**

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The 2004 Feasibility Study included financial assumptions for net operating income. We shared these assumptions with local experts who have experience managing performing arts venues, and asked them to comment on the reasonableness of these assumptions, and suggest revisions where appropriate. These revisions increased costs, and decreased revenues, resulting in a larger projected operating deficit.

In this section, we present tables showing revised operating assumptions, highlighting the changes that were made from the 2004 study. Attachment B is a memorandum that includes all of the original assumptions from the 2004 Feasibility Study.

Table 5 presents key assumptions for operating revenue. All of these assumptions are for a stabilized year, recognizing that during the early years of operation, a performing arts center may struggle to achieve these revenues. We increased the assumed commercial performance rental rate from \$750 to \$800, but this was offset by increasing the share of performances by non-profit groups (from 60% to 80% of total performances), and reducing the number of receptions per year (from 40 to 20). We also added a line for revenue from souvenir sales, however we had insufficient information on the expected sales volume to calculate how souvenir sales would impact the facilities operating budget.

There may be ways for the facility to increase operating revenues above those shown in Table 5. First and foremost, increasing food and beverage sales. Other facilities are able to generate significantly higher sales, particularly if beer and wine are available. We recommend considering

strategies to maximize food and beverage sales on site. Additionally, the mix of commercial vs. non-profit performances has a significant impact on the budget. The facility needs to balance its desire to accommodate and support local, non-profit performing arts groups with the benefits of attracting commercial groups capable of paying higher rates.

**Table 5. Operating revenue assumptions**

	Amount	Units
Main Hall use	60% of annual days	
Performances	50% of Main Hall use	
Rehearsals	50% of Main Hall use	
Performance rates		
Base rental rate	\$800	per performance, commercial
Discount for non-profits	20% off base rental rate	
Percent non-profit use	80%	of Main hall use
Rehearsal rate percent base	50% of base rental rate	
Meeting space use		
Meetings	50% of annual days	
Average length	2 hours	
Receptions	20	per year
Average length	4 hours	
Meeting space rates		
Meetings	\$75	per hour
Receptions	\$150	per hour
Equipment rental revenue	10% of base rental revenue	
Average attendance		
Performances	300	per performance
Meetings	30	per meeting
Receptions	100	per reception
Patron use surcharge	\$2	per performance attendee
Food sales per attendee		
Performances	\$0.25	per attendee
Meetings	\$1	per attendee
Receptions	\$5	per attendee
Catering commission	20% of catering revenue	
Souvenir Sales	10-20%	of sales

Source: ECONorthwest 2004, updated in 2010

Table 6 shows assumptions for operating costs. Labor is the largest operating expense, including three full-time positions (Facility Director, Scheduling/Event Coordinator, and Technical Director) and part-time staff.

In our conversations with local experts, and similar facilities around the country, we found a wide-range of operating models, with very different staff costs. Some common staff positions that the proposed Beaverton Performing Arts Center may need to provide include: accountants, box office, custodial, security (particularly for gallery exhibits), engineers, etc. We understand that the proposed facility would seek to handle most of this work through volunteers, but this would require a part-time volunteer coordinator to oversee their work.

We increased part-time staff costs from \$20,000 to \$50,000 to account for a volunteer-coordinator, accountant (or auditor fee), and contingency for any of the other positions that may not be filled exclusively by volunteers. We included a proportional increase in benefits. The only other change we made to operating expenses was increasing advertising expenses from \$25,000 to \$35,000. Indeed, the Performing Arts Center may want to consider a full-time staff member devoted to marketing and advertising. Educating the community (including the greater Portland metropolitan area) on the host of events offered at the facility will be instrumental in ensuring the success of the facility.

**Table 6. Operating expense assumptions**

<b>Cost</b>	<b>Amount</b>
<b>Labor</b>	<b>\$ 265,000</b>
Facility Director	\$ 80,000
Scheduling/Event Coordinator	\$ 32,000
Technical Director	\$ 50,000
Part-time staff	\$ 50,000
Benefits (25% of wages)	\$ 53,000
<b>Administrative Overhead</b>	<b>\$ 60,000</b>
Advertising	\$ 35,000
Office supplies/services	\$ 15,000
Postage	\$ 5,000
Phone	\$ 5,000
<b>Building Operation</b>	<b>\$ 140,000</b>
Utilities	\$ 60,000
Contract services	\$ 30,000
Supplies	\$ 10,000
Insurance	\$ 25,000
Maintenance	\$ 15,000
<b>Set-aside for Capital Improvements</b>	<b>\$ 20,000</b>
<b>Total Operating Costs</b>	<b>\$ 485,000</b>

Source: ECONorthwest 2004, updated in 2010

With the updated assumptions, we recalculated annual net operating income for the facility, shown in Table 7. Total revenues declined from

\$249,133 to \$236,111. Total costs increased from \$437,500 to \$485,000. Based on these new assumptions, operating revenues are only anticipated to cover 49% of operating expenditures, leaving an operating deficit of \$248,889. This deficit would need to be filled through donations, public funding, or other sources.

**Table 7. Net operating income**

	<b>Amount</b>
<b>Total Revenue</b>	<b>\$ 236,111</b>
Performances and rehearsals	\$ 121,968
Meetings and receptions	\$ 43,395
Patron use surcharge	\$ 66,000
Catering commission	\$ 4,748
<b>Total Costs</b>	<b>\$ (485,000)</b>
Labor	\$ (265,000)
Administrative overhead	\$ (60,000)
Building operation	\$ (140,000)
Set-aside for capital improvements	\$ (20,000)
<b>Net operating revenue</b>	<b>\$ (248,889)</b>

Source: ECONorthwest 2004, updated in 2010

As stated in the 2004 Feasibility Study, net operating revenue for every performing arts center we are aware of is negative. That is, we do not know of any performing arts facility where revenue generated by rental and other user fees exceeds operating costs – some level of public or private funding and volunteer labor is needed for these facilities to operate.

Based on revised assumptions, we estimate the facility will generate revenue equal to 49% of estimated operating costs. This level of cost recovery is similar to the level at other performing arts facilities, which typically ranges from 40% to 60%. Increasing the number of events and rental rates above what we have assumed would increase revenues, mitigating the annual operating deficit.

## **2.5 CAPITAL FINANCING STRATEGIES**

Depending on the type of ownership entity, and the particular mix of uses, there are a variety of potential funding sources for the project, many of which can be bundled. If the facility is owned by a non-profit or public agency it will have access to somewhat different funding sources than it would if it were owned by a private entity (e.g., public and non-profit ownership offer access to tax exempt bond financing). Construction costs would also likely be different (e.g., the private sector does not have prescribed bidding or prevailing wage requirements). A preliminary list of funding sources includes:



- Corporate contributions
- Individual contributions
- Grants – federal, state, and private foundations
- Rent/lease payments – these can be used to help pay off tax exempt bonds or other borrowings
- Other income (gallery sales, etc.)
- Naming rights for the entire building and for key elements (e.g. rooms, stage, seats, other fixtures, parking lots etc.)
- National Register of Historic Places listing if the arts center is a rehab of a historic building (this enables federal historic tax credits that have the effect of injecting the effective equivalents of grants into the project)
- Community Development Block Grants
- City of Beaverton General Fund
- City or county surcharge on ticket prices for all or some public arts/cultural/sports facilities – these fees can be used to help pay off tax exempt revenue bonds or other borrowings
- State cultural facilities funding
- Tax Increment Funds (TIF) could be used should the City establish an Urban Renewal Area in which the performing arts center is located. TIF would be most appropriate for structured parking or for a mixed-use facility, a portion of which would generate property tax.
- 501c3 non-profit bonds and 63-20 public facility bonds offer tax exempt revenue backed financing
- Cost may be reduced by being part of a mixed-use project which could offer economies of scale for construction as well as some shared uses such as parking, meeting, gallery, and food/drink serving spaces
- EB-5 foreign investment funds – these can be used to pay for capital costs based on job creation. EB-5 investors need to be repaid at low interest rates, which can be addressed by rental fees and other income from the performing arts facility. Greater amounts of EB-5 financing could be secured if the facility is a mixed-use development with more job creation.

# Findings and Recommendations

## 3.1 FINDINGS

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Based on our analysis, we identified the following key findings:

- Residents in and around Beaverton should provide sufficient market demand for a performing arts center. Based on national spending patterns, and Beaverton's demographic composition, we expect the proposed facility could be capable of attracting audiences, and ticket sales necessary to support the facility.
- One impact of the recent economic downturn has been a cooling on construction costs. In 2003, LMN Architects estimated construction costs for the facility would be between \$544 and \$558 per sq. ft. Updated for inflation, these costs would be \$664 and \$681 per sq. ft. in 2010, for total construction costs of about \$25.5 million. These numbers are still preliminary, and more detailed design and engineering work is necessary to obtain final cost estimates.
- The operating projections in the 2004 study may have been too optimistic. Input from local experts, as well as case studies of similar facilities around the country indicate the proposed facility may require additional full-time or part-time staff positions. Other assumptions on user-generated revenues may have been too high. These two factors combine for an increased operating deficit. However, these assumptions will continue to change as the operating program is refined.
- Broad-based support is key. Given the preliminary cost estimates (both capital and ongoing operating deficit), is the private sector willing to step up and pay for the facility? To what extent can funds be tapped from foundations, non-profits, and trusts? Does the public sector need to chip in? Before proceeding with more detailed (and expensive) next steps, proponents of the facility will want to have more confidence that the project is financially feasible.
- All of the five sites reviewed in this study have potential. The Beaverton Christian Church site is perhaps the most tempting, because the existing facility has in place many of the desired features for the proposed facility, and looks like a strong candidate for reuse. But, further analysis is necessary to know exactly what the cost of

renovating and remodeling the facility would be, and if this provides substantial cost savings versus new construction at another site.

## 3.2 RECOMMENDATIONS

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The following recommendations are based on our findings:

- Pace yourselves. The community has been considering this facility for years, and if the fundraising is successful, it will likely still be years before the new facility opens its doors. This is often the case with performing arts centers, which require the cooperation of many stakeholders and funding partners to achieve success.
- Refine your projections for facility use. Local community arts groups are intended to be heavy users of the facility. These groups need to be involved in the project, to varying degrees, every step of the way to ensure the facility works for them. If the facility plans on attracting regional/national/international groups, then additional work will also need to be done to confirm realistic expectations of their use.
- Refine your development program. How critical is it to have 600 seats? How many classrooms are needed? How many sq. ft. of lobby space? You will need to prioritize the types of spaces and amenities that are most important to the community, and consider how each will affect the facility's ability to function effectively, as well as costs and revenues (capital and operating).
- Determine the feasibility of the Beaverton Christian Church. A number of issues will need to be considered to understand the cost of repurposing the Church: asbestos, seismic, finishes, equipment, power, fly tower, etc. What is the facility lacking? What will it cost to bring it up to snuff? Are there disadvantages to the location that cannot be overcome (e.g., not on a MAX line, limited opportunity for catalytic redevelopment, potential neighborhood opposition)?
- Bring in a veteran fundraiser to help craft your strategy. Without adequate funding, the facility will never come to fruition. It is advantageous to enlist the help of folks with experience raising money for the arts. We recommend hiring a consultant to provide expert advice on your fundraising plan.
- Engage your community leaders: arts patrons, elected officials, corporate execs, education officials, arts organizations, foundation leaders, civic leaders, etc. Find out who wants to lead, and who's willing to help with time and/or money. At the same time, search

for complementary partners. What other private and public users could benefit from and help fund the facility? Is there a role for the school district, MERC, a college/university, medical facility, or large private business?

- Explore the potential of developing the performing arts facility as part of a mixed-use project that could include complementary uses, such as a hotel, conference center, or another private use? What are the financial and operating tradeoffs in working out a partnered arrangement with a mix of uses? Can this help bring the project to reality more quickly?

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